



# SOLUTIONS TO COMMON REPORTING ERRORS

This quick reference aid has been developed by the Washington State Department of Revenue to help you avoid common tax reporting errors. Although it provides solutions to many common errors, it is not intended to be a comprehensive resource. Please refer to the *Helpful Resources* section on page 4 for additional sources of information.

## 1. SHOULD YOU FILE?

### Know Your Registration Requirements

You must register your business with the Department of Revenue if your gross income is \$12,000 or more per calendar year or you collect or pay any other taxes to the Department, including the retail sales tax.

### Do You Qualify as an Active Nonreporter?

You are eligible to be an active non-reporter if:

- your business activity does not require the collection of retail sales tax;
- your gross proceeds of sales, gross income or value of products is less than \$28,000 per calendar year for all business and occupation (B&O) tax and less than \$24,000 for all public utility tax classifications; and
- your business owes no other tax or fee to the Department of Revenue.

If your business is assigned this status, you are considered to be actively doing business in Washington, but you will not receive and are not required to file Combined Excise Tax Returns.

**Note:** If you are currently filing tax returns and meet the above qualifications for active nonreporting, please contact the Department to change your reporting status.

## 2. Know Your REPORTING CLASSIFICATION

All your income must be reported on the Combined Excise Tax Return. If your classification isn't listed below, please call 1-800-647-7706 for assistance. Depending on the nature of your business, you may be required to report under more than one classification. Although your particular classification may not be listed, the following are the most common reporting classifications:

### Retailing

Sales of goods and certain services to a consumer fall under the Retailing classification. Taxable retail services generally include those services performed on property, such as construction and repair. Also included are escrow agencies, certain amusement activities, transient lodging, and specific consumer services, including landscape maintenance, health and fitness activities and day trips for sightseeing.

### Manufacturing

Producing a new, different or useful substance or article of tangible personal property for sale or commercial or industrial use. Only goods manufactured in Washington need to be included under this classification.

### Service and Other Activities

Generally this classification includes personal and/or professional services. A few examples of service activities include but are not limited to: legal, accounting, consulting, engineering, banking, beauticians, appraising, janitorial, massage, physicians and all other activities not otherwise classified. Also report the receipt of interest on accounts receivable under this classification.

### State Public Utilities

There are a variety of activities that fall into the State Public Utility tax rather than the B&O tax. These include, but are not limited to: water distribution, sewer collection, operation of a power plant or system, gas distribution, transporting persons or property for others, operation of railroad, and the operation of vessels under 65 feet in Washington waters (excluding tugboats).

### Wholesaling

Sales of tangible personal property and/or labor services performed for persons who resell the same in the normal course of business (without intervening use) are wholesale sales. Wholesalers must receive and retain a Resale Certificate.

This guide is provided by Washington State's Department of Revenue to assist taxpayers in filing the Combined Excise Tax Return.



### 3. Report **GROSS** Income

*Excise taxes are based on gross income.*

#### What is Gross Income?

Gross income is amounts billed or received for sales without deduction for expenses. Charges or receipts include money, property, services and barter transactions. It does not include retail sales tax.

#### Examples of What to Include in Gross Income:

All gross income must be reported under column one of the Combined Excise Tax Return.

- Amounts charged for services provided.
- Amounts charged for property sold.
- Freight charges.
- Reimbursed expenses such as travel costs, copy charges, license fees, etc.
- Interest on accounts receivable.
- Services received in trade (instead of money).
- Property received in trade (instead of money).

#### Recommended Procedures to Prevent Gross Income Reporting Errors

To verify you are reporting gross income, refer to your books and records such as:

- **Sales Journals** – keep a sales journal that details gross income by tax classification.
- **General Ledger Income Accounts** – all income recorded in these accounts should be reported on your return. Be sure to add back any debit entries.
- **General Ledger Expense Accounts** - income recorded in expense accounts is to be reported as gross income on your return.
- **Other Income or Other Expense Accounts** - income recorded in these accounts is often overlooked but should be reported on your return.

### 5. Documentation **DOCUMENTATION** Documentation

*Keep all business records for a minimum of five years.*

Business records may include general ledgers, sales journals, bank statements, check registers, sales invoices, purchase invoices, Combined Excise Tax Returns and federal income tax returns. Documentation is required to support all deductions, credits and sales not subject to retail sales tax. Review the following examples:

- **Wholesale Sales** – resale certificates are required from all wholesale customers.
- **Bad Debts** – federal income tax returns are required to support bad debt deductions.
- **Interstate and Foreign Sales** – shipping documentation is required for proof of interstate and foreign sales of goods.
- **Qualified Nonresident Sales** – the seller must examine one piece of photo I.D. which shows proof of nonresidence in a qualifying state, territory, or province. The seller must maintain a record of the type of proof accepted, including identification number, expiration date and state of residency of the purchaser.
- **Sales to Indians** – tribal membership enrollment documentation and delivery documentation is required to support exempt sales to Native Americans. Delivery must be made to the reservation in which the purchaser is an enrolled tribal member, except for goods used in a treaty fishery.
- **Sales of Manufacturing Machinery/Equipment** – Manufacturer's Sales and Use Tax Exemption Certificates are required for exempt sales of this type of equipment.
- **Amended Return** – provide a detailed explanation why the return is being amended.

### 4. DEDUCTIONS & EXEMPTIONS

Remember to report gross income, taking appropriate deductions when available. Record your deductions on the Combined Excise Tax Return Deduction Detail sheet. Be sure your deductions are taken under the proper tax classification. For example, if you have a Retailing deduction, it must be claimed under the Retailing column of the Deduction Detail sheet. If you take an "Other" deduction, please provide an explanation on the Deduction Detail sheet in the space provided. If more space is needed, you may use an additional piece of paper and attach it to your return. If you have a question about a specific deduction, please refer to the *Guide to Completing the Washington State Combined Excise Tax Return*.

Keep all documentation supporting the deductions claimed. Tax is due unless you provide proof for the deduction (see section 5).

**Note:** If you need to report a deduction and did not receive the Deduction Detail sheet with your Combined Excise Tax Return, please call our Telephone Information Center to obtain one.

Things to remember about common deductions:

- **Bad Debts** – If claiming a bad debt deduction, the amount claimed must have been previously reported and the amount must be written off for federal income tax purposes. If a bad debt deduction is claimed and the bad debt is eventually collected, the amount collected must be reported as income on the Combined Excise Tax Return. This includes NSF checks.
- **Cash and Trade Discounts** – The discount amount may be deducted from the gross proceeds of sales if such amount was included in the gross amount reported. If retail sales tax is not refunded to the consumer as the result of the discount, then no deduction is allowed.
- **Sales to U.S. Government** – Sales of tangible personal property to the U.S. Government are exempt from retail sales tax. However, sales to the state of Washington, counties, cities, schools and other political subdivisions are taxable as retail sales. This deduction is not available for the B&O tax.
- **Taxable Amount for Tax Paid at Source** – If you paid retail sales tax on purchases for resale of materials or amounts billed by subcontractors, you may take the *Taxable Amount for Tax Paid at Source* deduction. The deduction is based on the taxable amount charged. The amount of retail sales tax paid may not be deducted. This deduction is not available for the B&O tax.
- **Interstate and Foreign Sales** – Goods sold and delivered to customers outside of Washington or transportation of persons or goods across state or international boundaries. Service providers must render the service outside the state to qualify.

## 6. Know Your LOCAL TAX Responsibility

Retail sales tax consists of two parts – state sales tax and local sales tax. Each local taxing jurisdiction is assigned a location code. Local tax monies are distributed to jurisdictions based on the coding provided on your return. These monies are used to fund local transportation, police, fire, justice and other needs determined by the local government. To ensure correct local tax distribution you should be aware of the following local taxes:

### Geographic Information System (GIS)

If you are unsure about which local code you should be using, take advantage of the Department of Revenue's Geographic Information System (GIS). Using the GIS's lookup feature is easy. Simply enter the U.S. Postal Service address and the system automatically searches for and identifies the proper location code and tax rate. A mapping feature uses an outline map display to identify appropriate tax codes and rates. For locations in King, Pierce, and Snohomish counties, GIS also identifies whether the location is within the Regional Transit Authority (RTA) boundaries. **GIS is available through the Department's Internet web site at <http://dor.wa.gov> under the "Services" hot button.**

### Local Sales/Use Tax

- The taxable amount reported under the local tax section must be the same as the taxable amount reported under the state tax section.
- If you have more locations to report than the lines provided on the return, you can request a local tax supplement form or use additional pages in the same format.

### Additional Local Taxes

The following local taxes need to be reported on special lines to ensure proper distribution of the tax:

- Regional Transit Authority (RTA) Tax.
- King County Food and Beverage Tax.
- Lodging Taxes.
- Rental Car Taxes.

## 7. Report USE TAX

### What Is Use Tax?

In general, use tax is to be reported for the use of items that sales tax was not paid on. The amount to report is generally the cost of the item.

#### EXAMPLES:

- Purchases from out-of-state vendors: computers, dental equipment, art, clothing, promotional items (i.e. gifts, pens, hats, shirts), supplies (i.e. office supplies, cleaning supplies, tools, books).
- Magazine subscriptions.
- Items you made and/or used.
- Inventory withdrawals (i.e. customized machinery or tools).
- Any items used (even if you bill the cost to your customer or ultimately sell the item).
- Equipment used on construction jobs (i.e. rental equipment, specialized tools/dyes).
- Retail purchases from vendors who typically sell at wholesale to you and did not charge tax (i.e. a drill bit purchased by general contractor from a lumber yard).
- Purchases from garage sales or individuals who do not collect sales tax.

### Recommended Procedures to Prevent Use Tax Reporting Errors

- Regularly verify that sales tax was paid on capitalized purchases (items you depreciate). If you have not, report the cost of the asset under Use Tax and Local Use Tax.
- Regularly review purchase invoices. If sales tax is not on the invoice, consider the following questions:
  - 1) Am I going to be the consumer of this purchased item?
  - 2) If I bought this item from a Washington retail outlet, would I have been charged sales tax?

If you answered YES to the questions, list the cost of the item (including shipping if from a Washington vendor). Total the costs and report under Use Tax and Local Use Tax. Retain the list to document the amounts you reported.

## 8. Take the CREDIT You Deserve

### Are you expecting a credit from the Department of Revenue?

Please wait for a Credit Memorandum to be issued. Your credit memorandum will provide you with an accurate credit including interest.

### How do you apply a Credit Memorandum issued by the Department of Revenue?

If you receive a Credit Memorandum for previously overpaid taxes, write the credit amount on the "Other Credits" line of the tax return. This line is located on page 2 of the tax return.

Be sure to attach a copy of the Credit Memorandum to your return.

### Do you qualify for the Small Business B&O Tax Credit (SBC)?

Review the SBC tables to determine your available credit. The SBC tables are included in each mailing of the Combined Excise Tax Return.

### Do you qualify for the Multiple Activities Tax Credit?

The credit is available to certain manufacturers, extractors, and sellers doing business in Washington State. Businesses are eligible for the credit for gross receipt taxes paid in another jurisdiction or for taxes paid on multiple activities within Washington.

Completion of the form titled Schedule C, is necessary each time a credit is claimed.

### Did you take a retail sales tax Bad Debt Credit using a Schedule B? Don't forget to take your Retailing B&O tax deduction.

If you have filed a Schedule B for your Bad Debt Credit, be sure to also take credit for your B&O tax. The credit is taken as a Bad Debt deduction on the Retailing B&O tax line.

## 9. HOUSEKEEPING

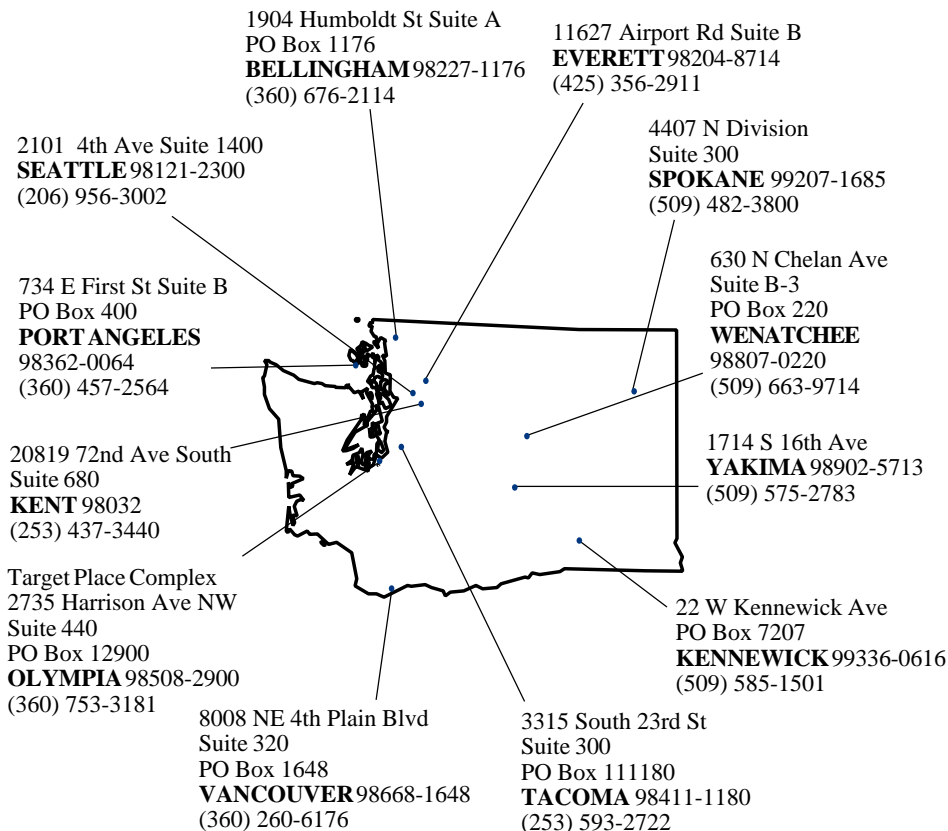
Verify your name, address and Unified Business Identifier (UBI) number is correct on the tax return.

- Confirm that the amount of your check matches the total tax due on your return. Make your checks out to the Department of Revenue.
- Make sure your UBI number is on your check.
- File your tax return by the due date indicated on the front of the return.
- If you file your return after the due date, add the appropriate delinquent penalty to the amount due.
- When filling out the return, use a black pen, not a pencil.
- Keep a copy of your Combined Excise Tax Return for your records.
- Remember to calculate your Litter Tax if applicable.

## FIELD OFFICE LOCATIONS



### Department of Revenue FIELD OFFICE LOCATIONS 1-800-647-7706



## 10. Use ELECTRONIC FILING

*Discover the non-taxing way to pay*

### Electronic Filing (ELF)

Washington business owners can now quickly and easily file and pay their taxes online using **ELF**, the Department of Revenue's new program that takes the stress and guesswork out of reporting taxes.

Once you enter your data, **ELF** automatically reviews your return, calculates taxes due, and flags any potential errors. **ELF** prompts you to correct these entries before your return is filed, greatly reducing the likelihood that you will file an erroneous return.

Check to see if you qualify to file electronically. For more information regarding ELF, call toll-free 1-877-FILE-ELF or visit our web site at <http://dor.wa.gov>.

## HELPFUL RESOURCES

- ♦ Web site address <http://dor.wa.gov>
- ♦ Telephone Information Center 1-800-647-7706 or your local field office.
- ♦ Tax Express (prerecorded tax information) 1-800-334-8969
- ♦ Guide to Completing the Combined Excise Tax Return
- ♦ Fast Fax
- ♦ Tax Consultation Service available upon request.
- ♦ To request a copy of a rule or law, please call 1-800-647-7706.

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